

## BACKGROUND

### INFORMATIONAL HEARING ON MANUFACTURERS INVESTMENT CREDIT

Monday, February 3, 2003  
1:30 p.m. - 4:30 p.m.  
State Capitol, Room 126

## INTRODUCTION TO THE HEARING

In 1993, in an effort to stimulate the economy during a deep recession, California enacted the Manufacturers Investment Credit (MIC). The MIC, which has been available to qualifying taxpayers since January 1994, offers taxpayers financial incentives for the purchase of certain types of manufacturing equipment placed in service in California. In February 2003, nearly ten years after the MIC was enacted -- and after a sufficient amount of time has passed for its effects to be documented -- the Assembly Revenue and Taxation Committee is convening an informational hearing to examine this tax expenditure.

Our informational hearing will begin by introducing the MIC -- describing how it works, which types of businesses and expenditures qualify for the credit, and discussing its fiscal impact on both the state and the private sector. Those who initially lobbied for enactment of the MIC will discuss why it was proposed and what it was intended to achieve. Tax agency representatives will describe the MIC's rules and regulations, summarize the ways in which the credit has changed since its inception, and discuss the dollar value of the credits that are earned and claimed annually. The Legislative Analyst's Office (LAO) will present the findings of its recent report on the MIC's usage and its effectiveness and appropriateness.

After this thorough introduction, the Committee and interested members of the public will hear from manufacturing businesses who have claimed the MIC regarding their experiences. We will also solicit the input of tax professionals who advise businesses wishing to claim the MIC and who represent private clients in their dealings with tax agencies regarding MIC claims. Many of those who testify will offer their ideas for improving the MIC. Some will argue for more narrowly targeting the MIC's benefits; others will argue for expanding the MIC; still others will argue for administrative simplifications that expand some provisions of the MIC while restricting the availability of other provisions.

The background information that follows in the remainder of this paper is intended to establish a framework useful for assimilating the testimony that will be offered by the invited witnesses. The attached paper by the LAO, included as Attachment I, provides considerable detail regarding the MIC's provisions, its users, and its effectiveness. Attachment II includes the complete text of California Revenue and Taxation Code Sections that provide for the MIC.

## **POLICY QUESTIONS**

Hearing testimony is expected to touch on many the following policy questions:

- For what purposes was the MIC enacted? To create jobs? Spur capital investment? Attract business to California? Retain existing businesses in California?
- Has the MIC worked as originally intended? Better than intended? Worse? How do we know?
- Has the focus of the MIC changed over time?
- If so, should the MIC's sunset date criteria be modified? Eliminated?
- Are all of the MIC's goals consistent with each other? Or are some at cross-purposes with one other?
- Do we still need the MIC?
- Should the MIC be changed to:
  - increase its benefits?
  - improve its effectiveness and efficiency?
  - broaden its appeal?

- narrow its focus?
- streamline its administration?

## **SUMMARY REPORT**

Within a few weeks after the conclusion of the hearing, Committee staff will compile the oral and written testimony provided by invited witnesses and interested members of the public. A summary of the testimony, together with any conclusions reached and recommendations offered during the hearing, will be included in a final report available from the Committee office.